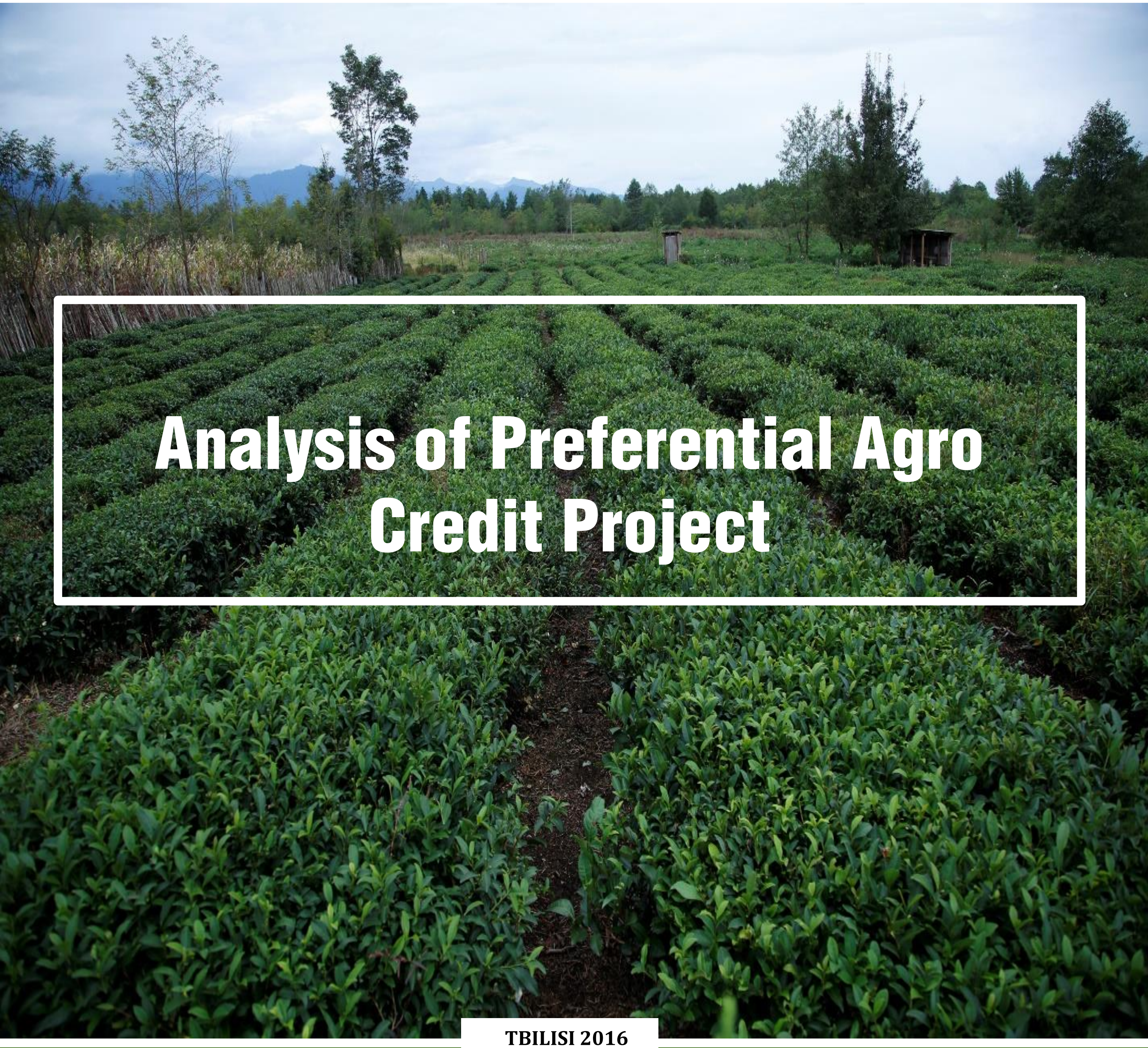
The European Union for Georgia
ENPARD: Support to Agriculture and Rural Development

RURAL AND AGRICULTURAL POLICY AND DEVELOPMENT INSTITUTE



Analysis of Preferential Agro Credit Project

TBILISI 2016

The present study was conducted in the framework of the European Neighborhood Programme for Agriculture (ENPARD), financed by the European Union (the EU). The study was carried out under the “Capacity Building to Agriculture-related Education and Research Institutions” project, by Rural and Agricultural Policy and Development Institute expert Irakli Moistrapishvili. The views set out in this study are those of the author(s) and do not necessarily reflect the official opinion of the European Union.

Content

1. Brief Summary of the Research

The European Union, through the European Neighborhood Programme for Agriculture and Rural Development (ENPARD) has been financing the project "Capacity Building to Agriculture-Related Education and Research Institutions" since October 2015. The programme aims to support agriculture sector development in Georgia through cooperation among state agencies, civil society and farmers.

The present study was conducted in the framework of this project. It aims to analyze the outcomes and evaluate the effectiveness of the Preferential Agro Credit Project.

The project was initiated by the Ministry of Agriculture of Georgia and is implemented by the non-commercial (non-entrepreneurial) legal entity Agricultural Projects Management Agency (APMA). The project started on March 27, 2013. In 2013 it was financed by the non-commercial (non-entrepreneurial) legal entity Rural and Agricultural Development Fund and since January 1, 2014 – by the state budget. The research covers the period from the project inception until December 31, 2015, inclusive.

The research covered the following: the overview of the preconditions of the project initiation, the description of the main terms of the project, the analysis and summary of the project related statistical data, the analysis of the macro and micro economic impacts and elaboration of recommendations for increasing the project effectiveness. The following sources of information were used in this research: Ministry of Agriculture of Georgia (moa.gov.ge), Agriculture Projects Management Agency (apma.ge), National Statistics Office of Georgia (geostat.ge) and the National Bank of Georgia (nbg.gov.ge).

Agriculture development is a strategic and priority direction for Georgia, and the precondition for its development is to improve the processes of primary agricultural production, processing, storage and sale by providing farmers and entrepreneurs engaged in agriculture with long-term and preferential funds, as well as to create favorable conditions for obtaining and returning these funds.

The agriculture sector in Georgia was characterized with scarcity/absence of such financial resources. Main hindering factors were – deficit of financial resources, high interest rates, limited long-term financial resources, lack of necessary assets for securing the credit and/or low value of these assets, evaluation of agriculture by the financial institutions as a high-risk field, and their low interest towards this field.

These are the key hindering factors that limit access to financial resources, especially to low interest rate loans. For improving the existing situation, the Ministry of Agriculture of Georgia initiated and started the implementation of the Preferential Agricultural Credit Project with its partner financial institutions on March 27, 2013.

15 largest banks out of 19 commercial banks of Georgia got involved in the project. Agricultural loans were disbursed by commercial banks. The projects were received, reviewed and then funding decisions were made only by the commercial banks, without the involvement of state agencies in this process.

Since the beginning of preferential agro credit project, as of December 31, 2015, within the framework of both components (purchase of current and fixed assets) of the project, 25,656 loans were disbursed to 21,773 beneficiaries, with a total amount of 686,058,018 GEL and 163,756,073 USD. The outstanding portfolio (residual value of the disbursed loans) is 233,548,571 GEL and 101,948,253 USD. It is noteworthy that before the project initiation, as of December 31, 2012, the cumulative portfolio of agro credits in Georgia comprised approximately 60 million GEL.

Out of 25,656 loans disbursed within the framework of the project, the term of state co-funding term was reduced only for 88 loans, and terminated only for 173 loans, out of which only 2 loans required fulfillment of secondary collateral obligation by state. The remaining 171 borrowers kept on repaying their loans in accordance with the terms and conditions (non-preferential) set by the banks.

Up to 3,500 new jobs were created at 139 new enterprises established within the framework of the Preferential Agro Credit Project and state programme "Produce in Georgia" in 2013-2015. Up to 10,000 new jobs were created at 665 enterprises that were expanded and reequipped within the framework of the Preferential Agro Credit Project.

The project beneficiaries (individuals and legal entities in Georgia) invested around 200 million GEL in agriculture production. In 2015, the total value of foreign direct investments was 28.8 million USD, which exceeds the value of the same period of 2012 by 1.8 times.

We studied the experience of various countries for comparing the preferential agro credit project with similar programmes of other countries: Ireland, the US, France, Poland and Bulgaria.

The project findings revealed that the project needed further improvement in the following directions:

- Lift the restriction regarding the term of loan;
- Finance enterprises with preferential agro credit using more refined models;
- Improve the process of collecting and classifying data at macroeconomic level, as well as on enterprise, regional, industry and activity levels;
- Verify statistics of geographic distribution of production;
- Track activities along with industries;
- Raise additional non-budget funding with the purpose of expanding the preferential agro credit project.

2. Preconditions of the Preferential Agro credit Project

Before 2013, the lack of long-term and affordable financial resources was a burning issue in the agriculture and agro-business sectors, which was directly reflected in the agricultural potential and economic indicators.

Agriculture has been regarded as a high-risk industry by banks and other financial institutions. As a result, the interest rates on the disbursed agro credits significantly exceeded the interest rates on other types of credits. Another reason for high interest rates was lack of and/or low value of farmers' assets needed for securing the credit. Real estate in rural areas and agricultural equipment (if any) were outdated, and the land did not have sufficient value for securing the credit. As a result, a loan-seeker could only get a small amount, high-interest and short-term credit, which would never ensure the business development in agriculture.

Due to the fact that agro loans represented only small part of their portfolios, the banks did not provide capacity building activities for agro loan officers and did not develop strategies for improving and expanding the agro credit services in this field.

Limited access to financial resources, especially to low-interest and long-term loans gave rise to many problems:

- Absence of timely and sufficient amount of quality agricultural production facilities;
- Lack of up-to-date and effective agricultural technologies and equipment;
- Insufficient, outdated and ineffective infrastructure for post-harvest handling, etc.

In this situation, it was important to increase financial support to the people engaged in agriculture, which would lead to providing simplified funding for agro-producers by the banking and financing sector, and to making credit resources cheaper and accessible in the long run. With this purpose, APMA started to implement a Preferential Agro credit Project initiated by the Ministry of Agriculture in March, 2013.

3. Project Description

3.1 Project Goals and Objectives

Goal – to provide long-term and preferential financial resources to farmers and entrepreneurs engaged in agricultural production with the purpose of improving primary agricultural production, processing, storage and sale.

Key Objectives:

- Facilitate local high quality production;
- Infrastructure development for primary production, processing, storage and sale;
- Increase the production of goods for export;
- Strengthen the value chain components of agriculture;
- Create jobs for the rural people to improve their economic wellbeing.

3.2 Project Components

At the initial stage of Preferential Agro credit Project, APMA provided three types of preferential credits to the farmers and agribusinesses through financial institutions and suppliers of agriculture production facilities. These are:

1. Interest-free commodity loans for small farmers;

APMA conducted negotiations with financial institutions and suppliers, which resulted in signing agreements on the following: the supplier (store) issues a bill (invoice) to a farmer for the goods to be purchased, which is then paid by the financial institution. As a result, the farmer/producer has an opportunity to get production supplies from the store s/he may need during the full cycle of production, and the financial institution will make respective payment to the store within agreed timeframes, according to the purchase bill (invoice) presented by the farmer. After the season is over, the farmer/producer will pay to the financial institution the total amount of the goods received since the approval of the loan, without accrued interest. By that time, the financial institution will have already paid the total amount of the approved loan to the supplier/store. In this case, the financial institution does not make the farmer pay any interest and instead, will retain the discount by the store, as a service fee.

2. **Preferential Agro credit for Medium and Large Farmers** (short-term financing for purchase of current assets and supplies)

   This component was designed to serve financial needs of medium and large farmers, who generate most part of their revenues from agro-activities. The state is interested in developing such kind of farmers, because their disappointment or high motivation is directly linked to the development of agriculture. Therefore, it is important to support this category of farmers through issuing preferable and tailored credits for ensuring stable development of agriculture.

3. **Preferential Agro Credit for Agricultural Enterprises** (long-term financing for purchase of fixed assets and technologies).

   This component of preferential agro credit implies support to the development of large farms, infrastructure projects for post-harvest handling (storage, warehousing, packaging, cold storage and processing facilities), also other types of infrastructure projects (contemporary farms, greenhouse farms, irrigation systems) through provision of cheap and long-term financial resources.

   At different stages of project implementation, it became necessary to make improvements and additions to it, which was caused by the desire to offer better financial services to the entrepreneurs in the field of agriculture. For example:

   - There were 4th and 5th components added to the project in summer of 2013 – "preferential agro leasing" and component "for purchasing grapes", and then the 6thcomponent was added in the fall for "purchasing tangerine and apple for processing";

   - There was a 7th component added to the project in the spring of 2014 "preferential agro credit for the enterprises co-funded by the state", and then there was an 8th component, which was a component for financing agriculture-related part of the state program "Produce in Georgia".

With the purpose of unifying and simplifying the components, the project was redesigned in the fall of 2014. The components were defined based on the type of production assets (fixed or current), and types of financial products (credit, leasing, "produce in Georgia"). Before that, the components were defined based on the amounts of funds and purpose/goal of loans, e.g. funding of fixed or current assets, funding for the purchase of only grapes, tangerine, peach and/or apple for processing.

At the moment, the Preferential Agro credit Project (hereinafter – Project) consists of the following financial products:

- "Preferential Agro Credit" with two components:
  - For current assets,
  - For fixed assets,
- "Preferential Agro Leasing";
- State programme "Produce in Georgia".

The first component (current assets) of the preferential agro credit, as a financial product now combines the 2nd, 5th and 6th components of the former preferential agro credit project, and the second (fixed assets) component, as a financial product, now combines the former 3rd and 7th components.

The first component of the former preferential agro credit project was terminated, because there was no necessity to have the involvement of APMA, which can only be evaluated positively. There was quite a good result achieved within the frameworks of this component in the very first year after the project initiation. Interest-free commodity loans of up to 2 million GEL were provided to about 6,000 farmers for the essential agricultural supplies, such as inputs for sowing and planting, fertilizers, plant protection means, agricultural supplies, etc.

The termination of the component means that APMA involvement was discontinued, as far as there was no more need for facilitation. Other stakeholders who were actually involved in this component (e.g. microfinance organizations and suppliers) continued cooperation without APMA.

The 4th component of the former preferential agro credit project was defined as a separate financial product because it differs from loan with its financial contents.

The 8th component of the former preferential agro credit project was also defined as a separate financial product. Some reasons for this are:

- This component was a part of another state program Produce in Georgia (but only for beneficiaries involved in agriculture);
- The component had some subcomponents: infrastructural (property) support to beneficiaries and consulting services (management training, training of human resources, etc.);
- It envisaged funding of only startup enterprises;
- It was possible to issue a loan as well as leasing per beneficiary;
- Both fixed assets (creation of long-term assets) and current assets (including the startup capital) were financed within the frameworks of the component. The ratio of fixed and current assets in the loan amount was: minimum 80% for fixed assets and maximum 20% for current assets.

- Unlike other components, there was a more complex monitoring process in place, which also implied making commitments by beneficiaries, declaring the fulfillment of these commitments with some periodicity, and their long-term monitoring by APMA. E.g. the beneficiary was supposed to start operating the enterprise within 2 years after the disbursement of loan, and to maintain the enterprise profile within 2 years since the beginning of functioning.

During the research period (from 27/03/2013 until 31/12/2015, inclusive), the Provision of the Preferential Agro credit Project was finalized based on the Decree #2177 of the Government of Georgia dated October 9, 2015, and at the moment of conducting the survey, as of October 2016, the last amendment was made to the Provision pursuant to the Decree #1940 of the Government of Georgia dated September 21, 2016.

This research aims to study and analyze the results of both components (fixed and current assets) of the "Preferential Agro Credit" as a financial product, and to provide respective recommendations.

4. Project Stakeholders

Components of the preferential agro credit project were developed by APMA based on the consultations with banking, financial and leasing institutions and providers of agricultural production supplies, as well as on the direct communication with beneficiaries. Their full involvement in the preferential agro credit project development was one of the key preconditions for the success. The stakeholders are making the following contributions to the project implementation:

Financial institutions:

- Provided interest-free commodity loans;
- Issue loans for financing current and fixed assets;
- Provide long-term leasing of fixed assets.

Suppliers:

- In agreement with financial institutions, determine 0% effective interest rate for the farmer, in case interest-free commodity loans (without APMA involvement since January 1, 2014).

APMA:

- In accordance with the terms and conditions of the preferential agro credit, provides co-funding for the interest expenses on loans, in the amount of annual 8% in case of current assets, and annual 11% in case of fixed assets (9% and 12% for the loans disbursed before January 1, 2015);

- Provides financing of the fee for the leased fixed assets, in the amount of annual 12% (13% for fixed assets leased before January 1, 2015).
- Provides letters of guarantee for the half of the principal amount of the loan (secondary collateral);
- In case the loan is written off, and if the financial institution wishes so, purchases the land that was used as a collateral for securing the loan, in accordance with the normative price determined by the state;
- Monitors the processes to ensure that the terms and conditions for issuing and servicing preferential agro credits are adhered to.

It should be underlined again, that within the frameworks of the first component, APMA's function was only to facilitate interaction between financial institutions and suppliers of agricultural facilities, and only at the project inception stage. APMA is not involved in making decisions regarding the elaboration and disbursement of loans and/or leasing within the frameworks of any of the financial products, although it is APMA that determines the terms and conditions for issuing preferential agro credit and leasing and is provider of all the benefits. The banks and leasing companies process and disburse the loan in accordance with respective procedures and terms and conditions of the preferential agro credit project so that APMA does not interfere in their activities or in the decision making at any stage. After the loans are disbursed, APMA monitors the loans and leasing to see how their disbursement (by the banks) and utilization (by the beneficiaries) meet the terms and conditions of preferential agro credit projects.

With the purpose of ensuring electronic communication, APMA has developed software that lets the project stakeholders to conduct the above-mentioned activities online. Obviously, this way it is more simplified and effective to carry out these activities in a coordinated mode. This software became a conceptual part of other state programs as well, e.g. the state program Produce in Georgia.

5. Summary and Analysis of Project Statistics

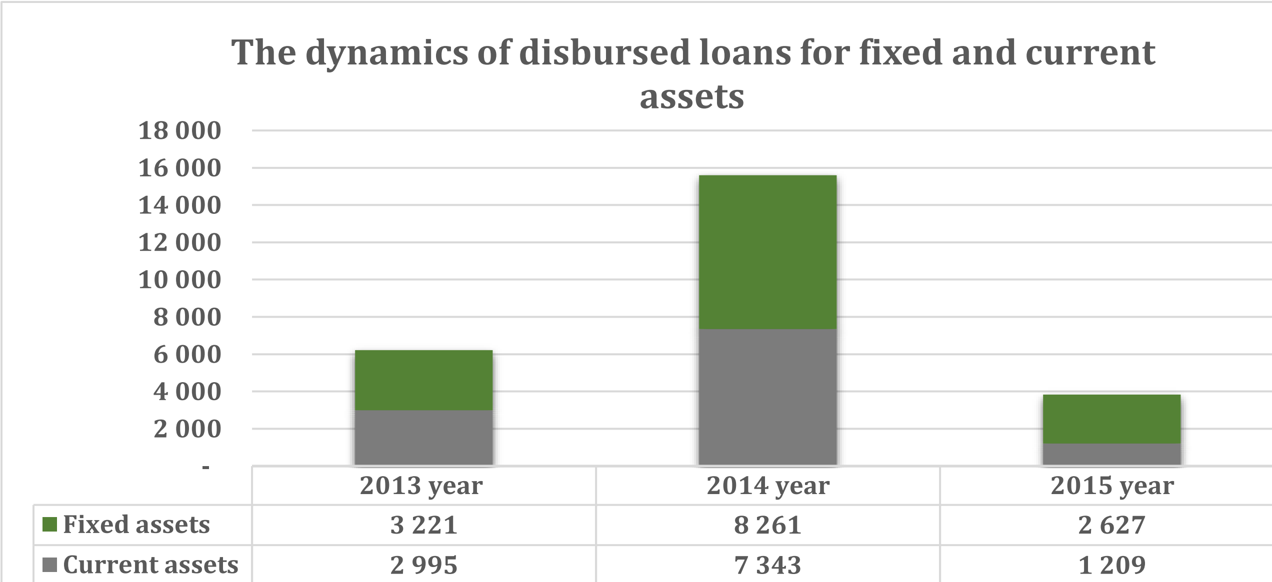
As mentioned already, this research aims to study and analyze the results of two components (fixed and current assets) of "preferential agro credit project", and to provide respective recommendations. Consequently, the statistical data is reviewed only regarding the loans disbursed within the frameworks of these two (fixed and current assets) components. Statistics of the first component combine the data of loans disbursed within the former 2nd, 5th and 6th components, and statistics of the second one – the data of loans disbursed within the former 3rd and 7th components.

It should be mentioned that the majority of data are obtained from the Agricultural Projects Management Agency.

The data of the National Statistics Office of Georgia and the National Bank of Georgia often are incomplete or/and do not provide correct figures of the Preferential Agro Credit Project.

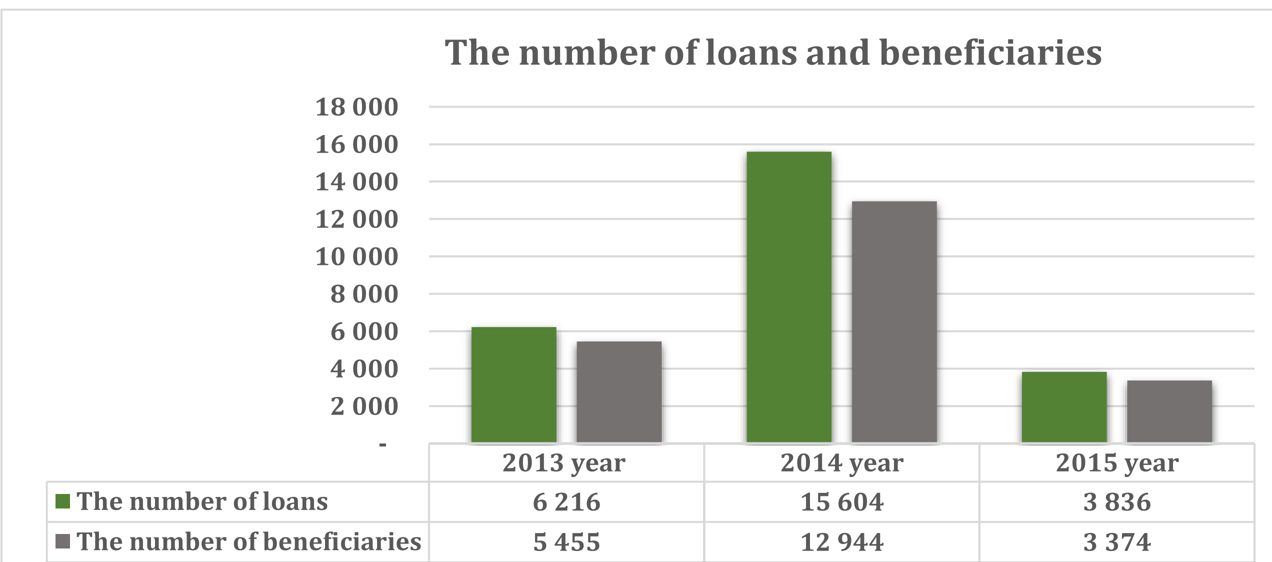
It is especially problematic to record the data regarding the number and volume of disbursed loans, as well as the outstanding portfolio size by the National Bank. Unfortunately, the data of the National Bank cannot be consistent with the data of the Agricultural Projects Management Agency. The difference is caused by the classification assigned to the loans by the National Bank: agro loans disbursed to individuals within the framework of preferential agro credit project are classified as consumer loans by the National Bank.
According to the data provided by the Agricultural Projects Management Agency, since the launch of preferential agro credit project and as of December 31, 2015, 25,656 loans have been disbursed to 21,773 beneficiaries within the frameworks of both (current and fixed assets) components, with the total amount of 686,058,018 GEL and 163,756,073 USD, and the outstanding portfolio (residual value of disbursed loans) of 233,548,571 GEL and 101,948,253 USD.

The dynamics of the number of loans disbursed for current and fixed assets per year is shown below:



Majority of loans were disbursed with the purpose of creating fixed assets, which can be evaluated as a positive fact, as their utilization during the production process will provide longer-term services to the farmers. As a result, low-cost financial resource will have a long-term positive impact on their expenditure structure.

There is a difference between the number of loans and number of beneficiaries, which provides the following picture per years:



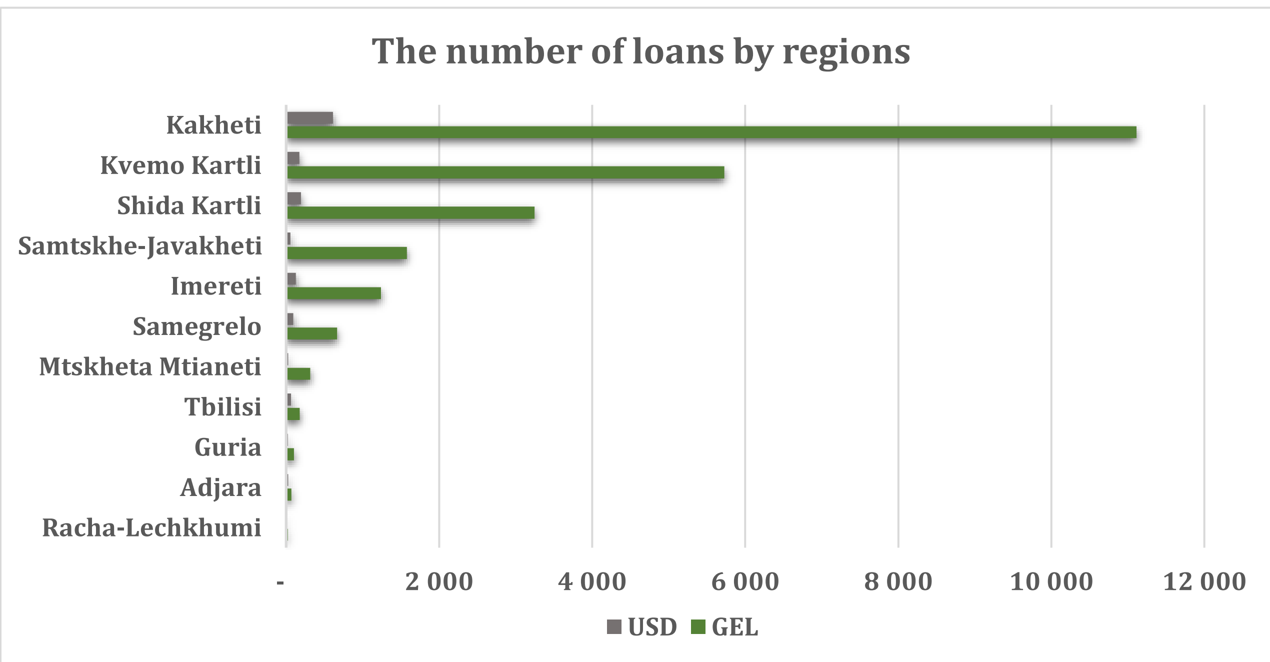
The difference between the number of beneficiaries and number of loans derives from the fact that some beneficiaries are using the loans for both components (current and fixed assets).

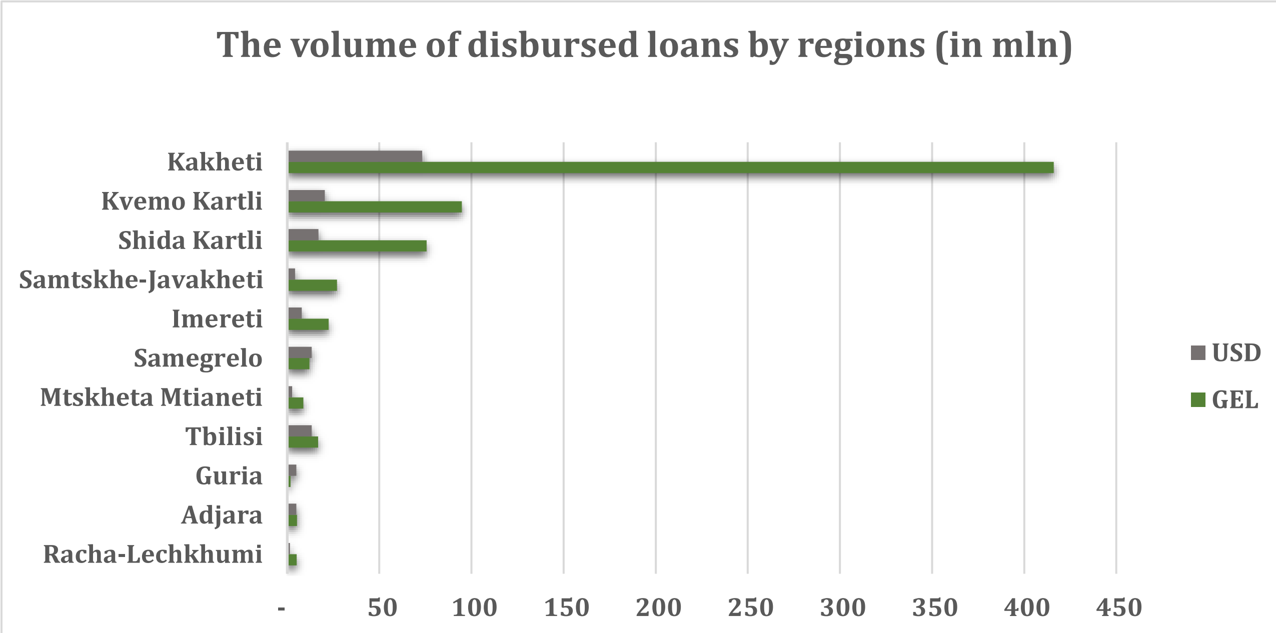
The reason for this is that those farmers or agribusinesses, that have taken loans for purchasing fixed assets, now have a desire to finance current assets as well. APMA has not restricted the farmers to use both components, which can be evaluated positively.
Kakheti is an unconditional leader among the regions based on the number of disbursed loans – with 11,115 loans disbursed in GEL and 613 loans disbursed in USD. In this respect, Racha-Lechkhumi region is the last in the list.

There are certain shortcomings in the data showing activity financing per region, which is caused on one hand by the differences between legal and actual addresses of producers, and on the other hand – by the fact that a company, which is registered in one region, in fact conducts its activities in several regions.

To illustrate this, the loans attributed to Tbilisi are a good example. Some part of the loans disbursed in Tbilisi are intended for farms, agro-enterprises and processing enterprises operating in rural settlements that fall within the territorial unit of Tbilisi. The other part of loans attributed to Tbilisi is disbursed to those farmers or agro-enterprises, which have a legal address in Tbilisi, but in fact they carry out their activities in another region(s). Similar facts are applicable to other regions, but not to the same extent as Tbilisi.

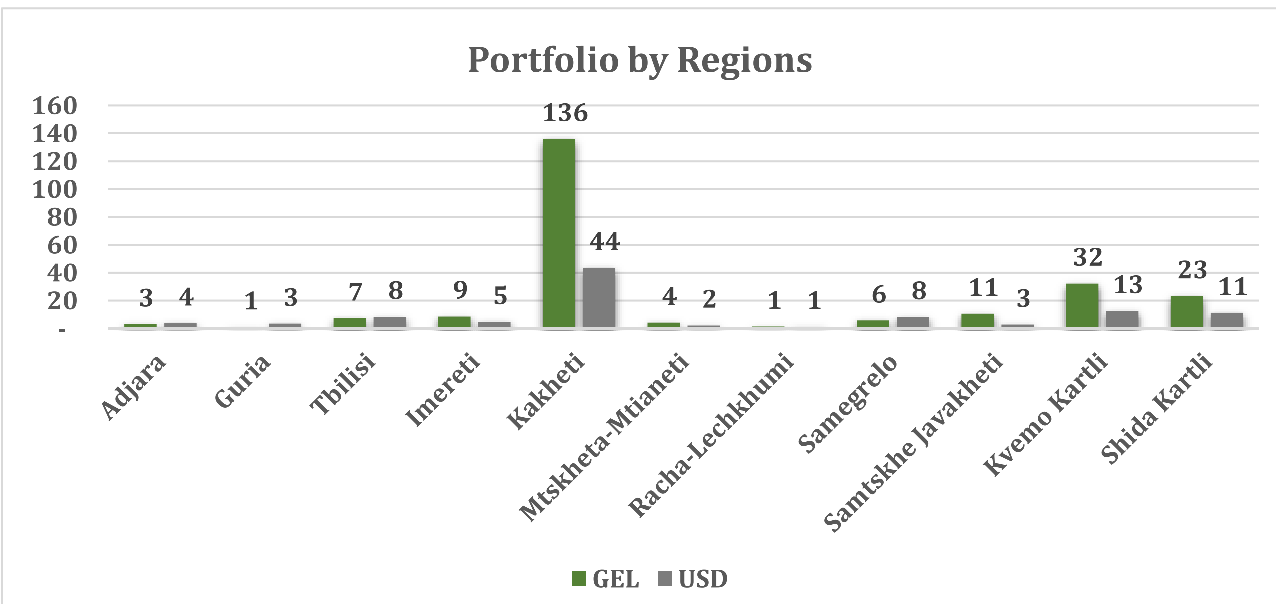
The next graph shows the number of loans disbursed with the purpose of financing current and fixed assets in GEL and USD, per region:





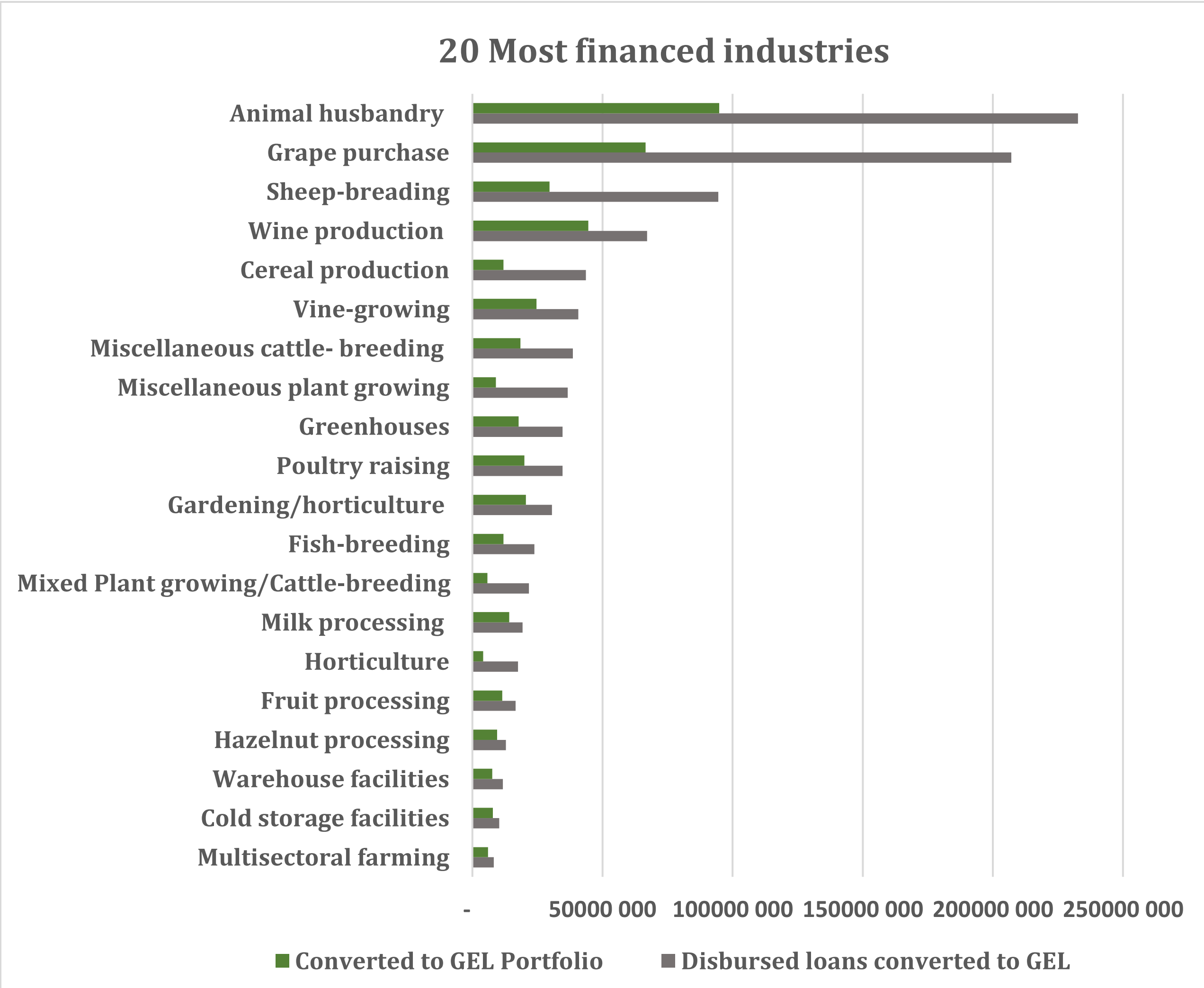
Kakheti is a leader again in regards to the number of disbursed loans (416 million GEL and 73 million USD) among other regions, and Racha-Lechkhumi remains at the bottom of the list in this respect too.

As of 31/12/2015, the portfolio (residual value of disbursed loans) consists of 233,548,571 GEL and 101,948,253 USD, and looks like this per region:



There are 45 primary production, processing and infrastructural industries financed within the frameworks of the preferential agro credit project. We have identified 20 industries that received the most funding.

Cumulative volume of outstanding and repaid loans in the national currency (converted to GEL), is distributed per industry the following way:



Calculation of outstanding and repaid loans in the national currency was done using the exchange rate of 31/12/2015.

As of December 31, 2015, there were 139 new enterprises established within the frameworks of all the three financial products of preferential agro credit project, out of which 5 new enterprises were established within the frameworks of the state programme "Produce in Georgia"[1].

[1]This research does not include the analysis of data on 5 new enterprises established within the framework of the state programme Produce in Georgia.

Financial Product	The number of new enterprises
Preferential agro credit	134
Government program - "Produce in Georgia"	5
Total	**139**

Region	Total amount Invested in USD	The share of beneficiaries in USD	The volume of the loans in USD	The number of enterprises
Adjara	2,422,350	692,350	1,730,000	1
Guria	2,000,000	1,475,000	525,000	1
Kakheti	8,000,000	6,660,000	1,340,000	1
Samegrelo	15,000,000	7,000,000	8,000,000	1
Kvemo Kartli	2,180,000	180,000	2,000,000	1
Total	**29,602,350**	**16,007,350**	**13,595,000**	**5**

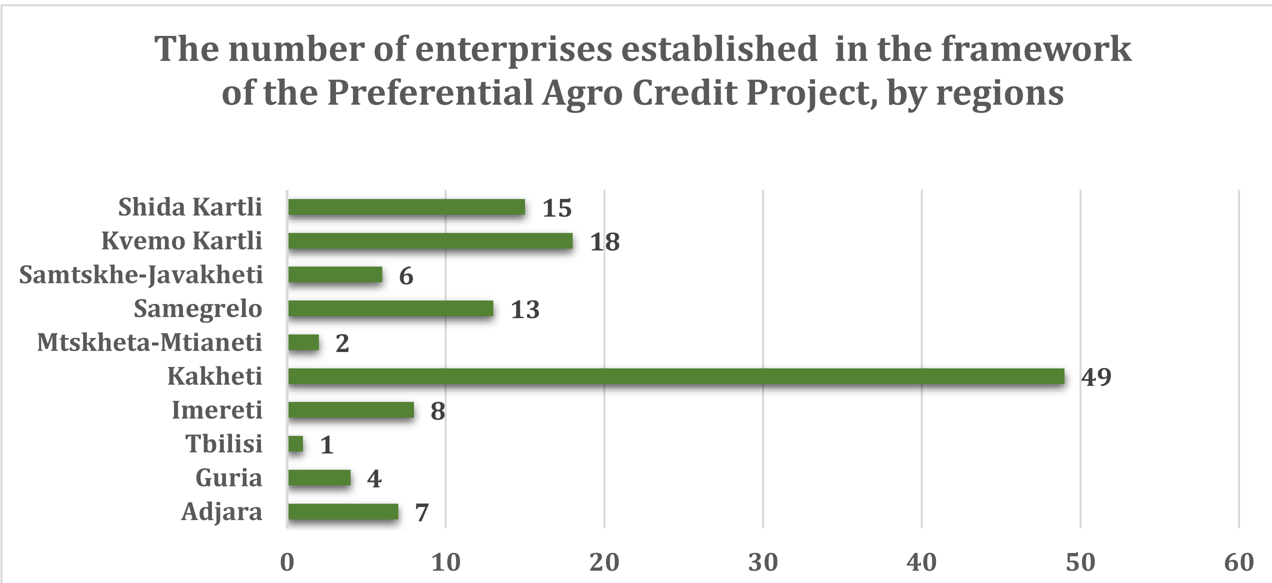
The study covers 134 new enterprises, 123 of which were financed by the banks with preferential agro credits and co-financed by farmers/agribusinesses themselves, without the state (so called grant) co-financing. It is noteworthy, that in these enterprises the share of farmers/agribusinesses' own investment significantly exceeds the volume of loans disbursed to them.

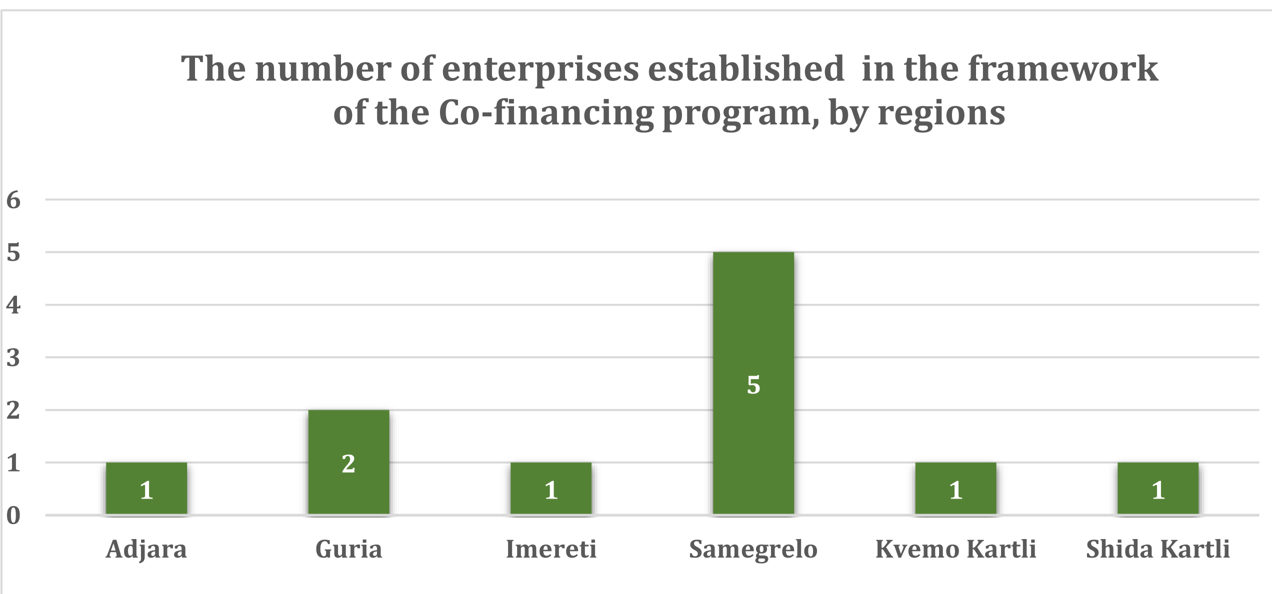
Region	Total amount invested in USD	The share of beneficiaries in USD	The volume of loans in USD
Adjara	2,020,000	655,000	1,365,000
Gruria	1,103,778	244,000	859,778
Tbilisi	1,800,000	1,200,000	600,000
Imereti	2,046,933	1,117,167	929,767
Kakheti	35,687,114	23,316,348	12,370,766
Mtskheta Mtianeti	415,000	100,000	315,000
Samegrelo	5,395,440	2,733,000	2,662,440
Samtskhe-Javakheti	1,821,000	576,000	1,245,000
Kvemo Kartli	10,842,700	6,536,200	4,306,500
Shida Kartli	3,876,833	1,693,500	2,183,333
Total	**65,008,799**	**38,171,215**	**26,837,584**

The remaining 11 enterprises (out of 134 new ones) were established using the mixed funding scheme, which means financing with preferential agro credit by the bank (maximum 50%), by the state (e.g. grant) (maximum 40%), and by the farmers/agribusinesses' own co-investment (minimum 10%).

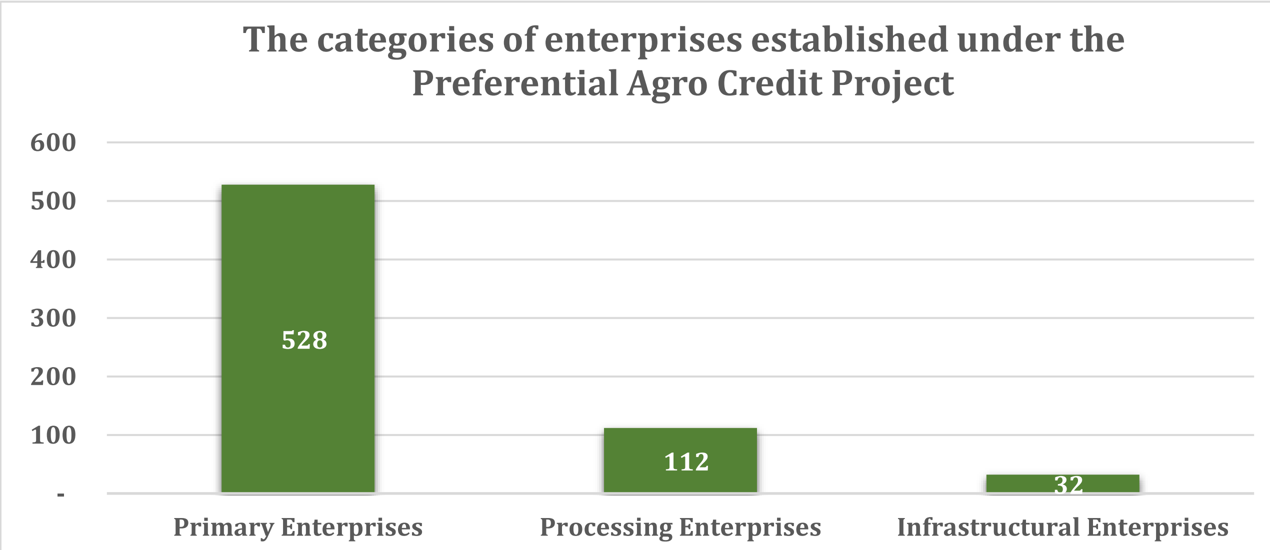
Region	Total amount invested in USD	The share of beneficiaries (min 10%) in USD	The volume of loans (max.50%) in USD	The government funding (max 40%) in USD
Adjara	1,000,000	100,000	500,000	400,000
Guria	1,971,961	197,196	985,981	788,784
Imereti	597,482	358,489	-	238,993
Samegrelo	3,505,162	350,575	1,752,581	1,402,006
Kvemo Kartli	446,780	44,678	223,390	178,712
Shida Kartli	409,260	40,926	204,630	163,704
Total	**7,930,645**	**1,091,865**	**3,666,582**	**3,172,198**

The above-mentioned 123 new enterprises were established in 10 regions of the country, and 11 new enterprises in 6 regions of Georgia. Their regional distribution is shown below:



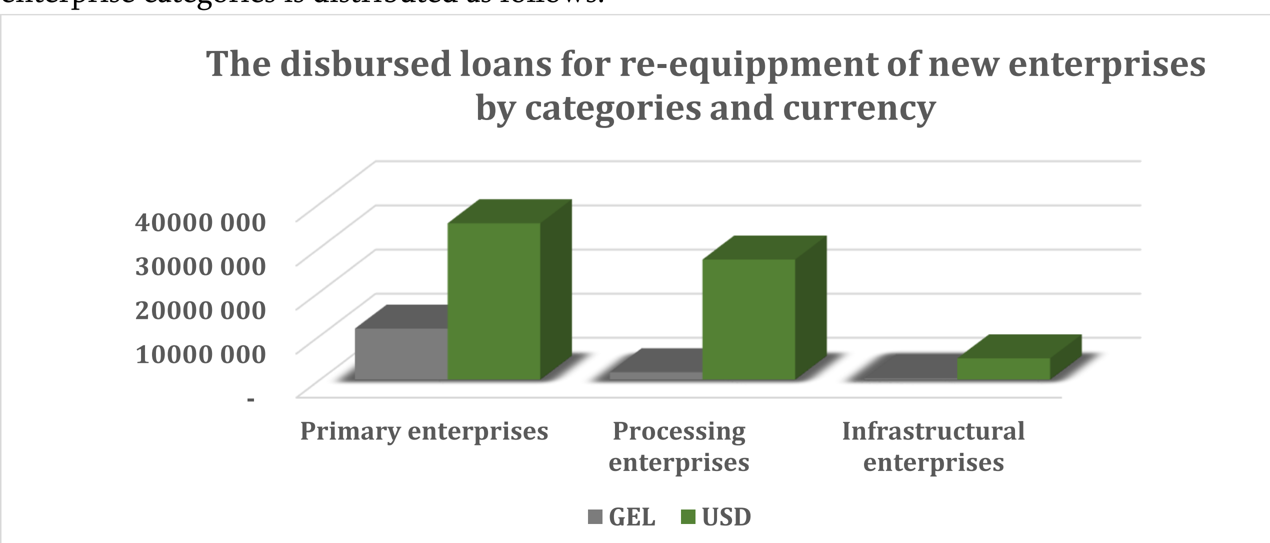


According to the data of the Agricultural Projects Management Agency, as of December 31, 2015, 665 agricultural enterprises were expanded and reequipped within the frameworks of the preferential agro credit project. In total, 672 loans were disbursed to these enterprises, out of which 100 loans were disbursed in GEL, and 572 loans – in USD.



The categories of enterprises	The disbursed loans		
	In GEL	In USD	Total
Primary production	91	437	528
Processing enterprises	7	105	112
Infrastructural enterprises	2	30	32
Total	**100**	**572**	**672**

Total volume of loans disbursed in GEL for reequipping the enterprises totals 13,551,359 GEL, and those disbursed in USD - 67,615,439 USD. The volume of preferential agro credits per enterprise categories is distributed as follows:



According to the APMA, since the launch of the preferential agro credit project until December 31, 2015, inclusive, APMA has provided a subsidy for co-financing the interest payments of farmers and agro-producers with the total amount of 86,073,915 GEL for loans disbursed within the framework of both components (current and fixed assets). The distribution of this amount per years is shown below:

Year	The number of outstanding loans	APMA subsidy for interest payments (in GEL)
2013	5,866	4,131,094
2014	15,447	29,277,074
2015	9,541	52,665,747
Total	**30,854**	**86,073,915**

Out of total number of loans disbursed during the period covered in this research, the last 32 loans disbursed in GEL will be repaid in 2022, and the last 3 loans disbursed in USD – in 2024. During this period, the repayment of loans disbursed in both currencies will look like this per years:

Year	The amount of outstanding loans		
	Disbursed in GEL	Disbursed in USD	Total
2016	8,444	1,045	9,489
2017	4,377	984	5,361
2018	2,300	917	3,217
2019	1,110	735	1,845
2020	366	551	917
2021	76	309	385
2022	32	147	179
2023		4	4
2024		3	3

Along with the decrease of outstanding loans, the amount of co-financing of interest expenses to be paid by state also decreases, which is given in the following table:

Year	APMA subsidy for interest expenses	
	Disbursed in GEL	Disbursed in USD
2016	18,168,414	11,891,936
2017	8,778,711	8,474,884
2018	4,539,000	5,926,426
2019	1,911,333	3,804,158
2020	662,844	2,037,416
2021	217,477	745,692
2022	34,241	139,781
2023		9,299
2024		2,858
Total	**34,312,019**	**33,032,449**

In order to control the purposeful disbursement and utilization process of preferential agro credits, the Agricultural Projects Management Agency implements two types of monitoring – field and document monitoring. The purpose of document monitoring is to control the banks in the process of disbursement of preferential agro credits and to ensure that they adhere to terms and conditions set in agreements with the Agricultural Projects Management Agency. As for the field monitoring, its aim is to ensure purposeful utilization of obtained loans by the farmers and agribusinesses.

As of December 31, 2015, based on data obtained by the monitoring service, APMA has reduced the co-financing term for 88 loans disbursed in the framework of both components of preferential agro credit project, and has terminated the state co-financing for 173 loans.

Year	The funding term reduced	The funding terminated
2013	6	7
2014	48	36
2015	34	130
Total	**88**	**173**

Out of the 88 loans with reduced term, none has become a problem loan and the borrowers kept on repaying them in accordance with the loan terms and conditions defined by the banks.

The two reasons for reducing the loan term are violation of loan issuance terms and conditions by the banks, and unpurposeful utilization of loans by the beneficiaries.

The causes of funding term reduction	The number of loans with reduced funding term through years			
	2013	2014	2015	In total
Violation of loan issuance terms and conditions by the banks	-	37	13	50
Unpurposeful utilization of loans by the beneficiaries	6	11	21	38
Total	**6**	**48**	**34**	**88**

There was a third reason added to the above-listed reasons for terminating the state co-financing by APMA in 2015 – failure of beneficiaries to submit to APMA the documentation that would prove that the loan was utilized purposefully. APMA made a respective amendment to the Monitoring Provision in 2015, which envisaged the obligation for a beneficiary to submit the documents to APMA proving the purposeful utilization of the loan.

The causes of the termination of the funding	The number of loans with terminated funding, through years			Total
	2013	2014	2015	
Violation of loan issuance terms and conditions by the banks		5	11	16
Unpurposeful utilization of loans by the beneficiaries	7	31	81	119
Failure of beneficiaries to submit the documentation for proving the purposeful utilization of the loan	-	-	38	38
Total	**7**	**36**	**130**	**173**

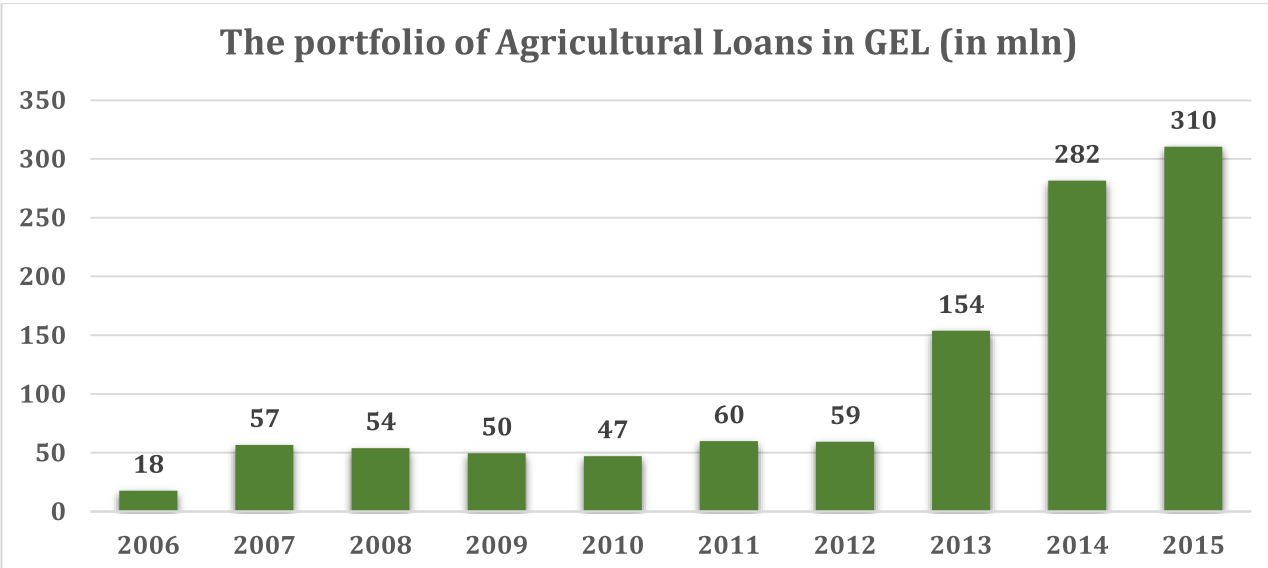
Out of 173 loans with terminated funding, only 2 became problem loans, and APMA had to fulfill the secondary obligation of securing the loan in the amount of 18,004 GEL. The remaining 171 borrowers continued to repay their loans themselves, in accordance with the loan terms and conditions set by the bank.

According to the National Bank of Georgia, by the end of 2015, there were 19 commercial banks operating in Georgia. Among them, 18 resident commercial banks were founded with the contribution of foreign capital, and one was a branch of a non-resident bank. By this period, 13 largest commercial banks of Georgia were involved in the implementation of agro credit project.

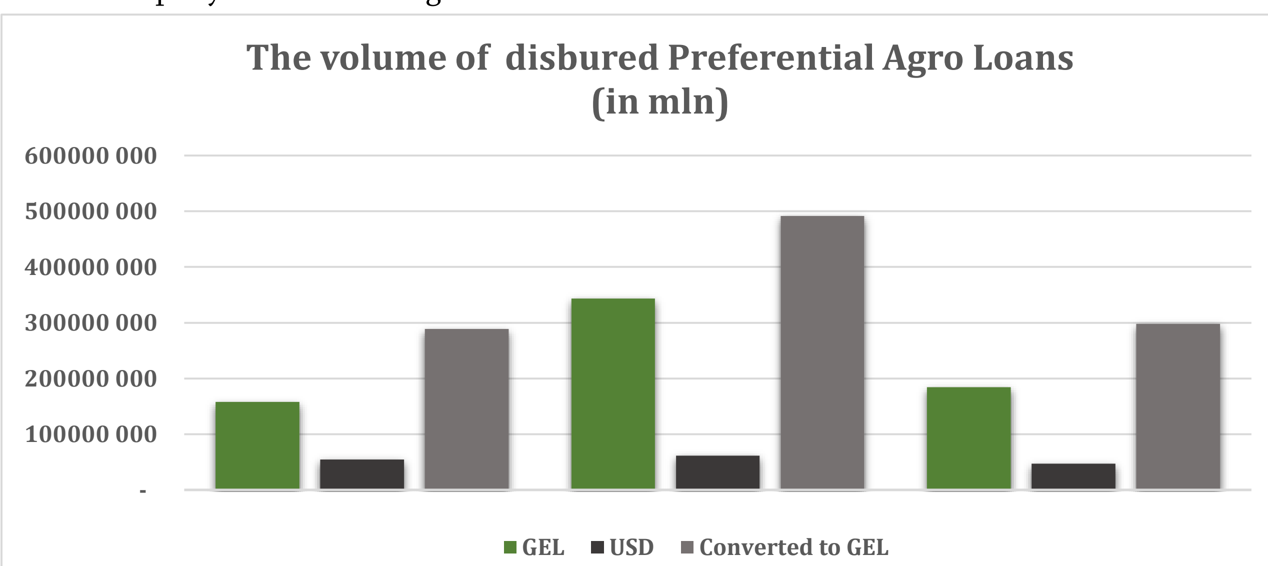
As mentioned above, commercial banks, based on the agreement signed with the Agricultural Projects Management Agency, provide preferential loans to farmers and agro-producers. Although APMA revealed some shortcomings during the monitoring process, in general, the banks involved in the project performed their duties (issuing loans) at high level. Therefore, their involvement in the implementation of agro credit project should be evaluated positively.

6. Analysis of Macroeconomic Impact of the Project

According to the National Bank of Georgia, the volume of loans classified as "agriculture, forestry, and fishery" loans that were disbursed by the commercial banks in national and foreign currency to the resident legal entities and individuals before and after the launch of preferential agro credit project, looks like this:



There is an evident growth of agricultural loans that the National Bank has registered using its classifier. According to the information provided by the Agricultural Projects Management Agency, the volume of preferential agro credits disbursed after the launch of the project distributed per years is following:

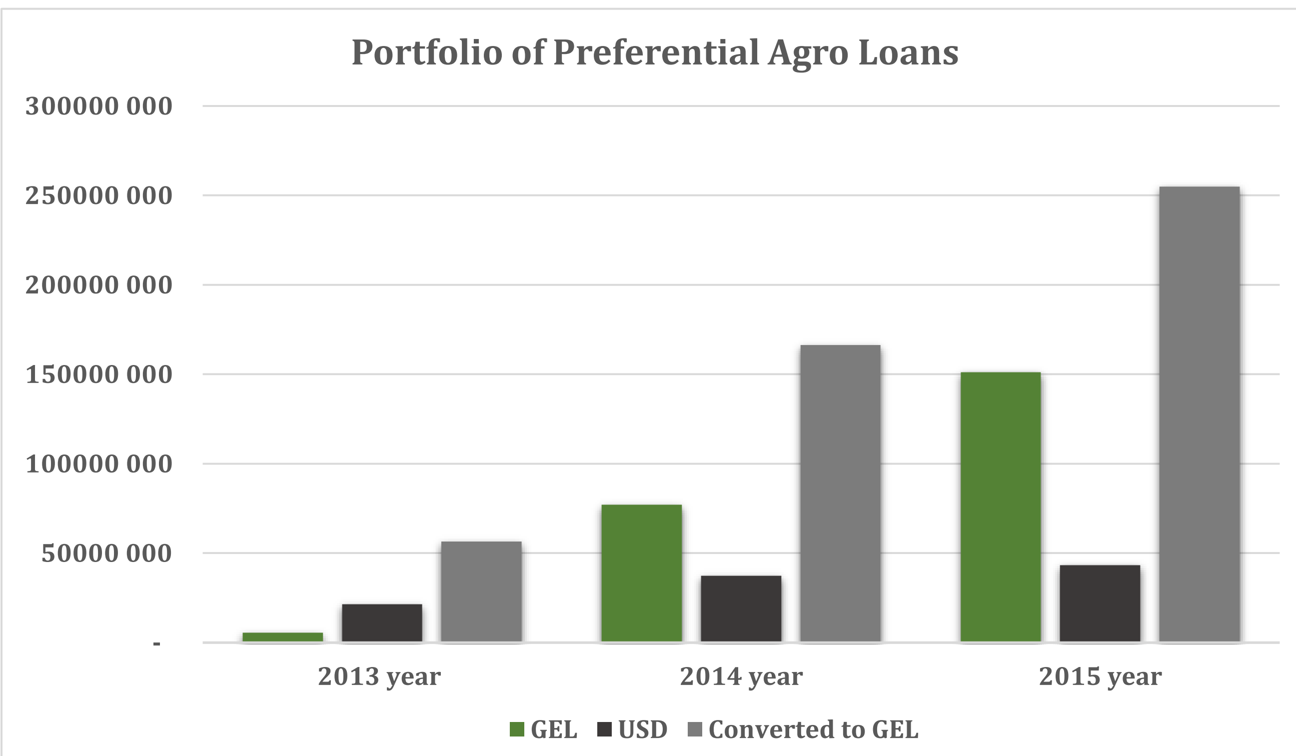


[The bank exchange rates of December 31 of the respective years have been used for converting the loans disbursed in USD to GEL.]

The number of loans disbursed in 2015 decreased compared to previous (2013-2014) years, which can be explained by several reasons:

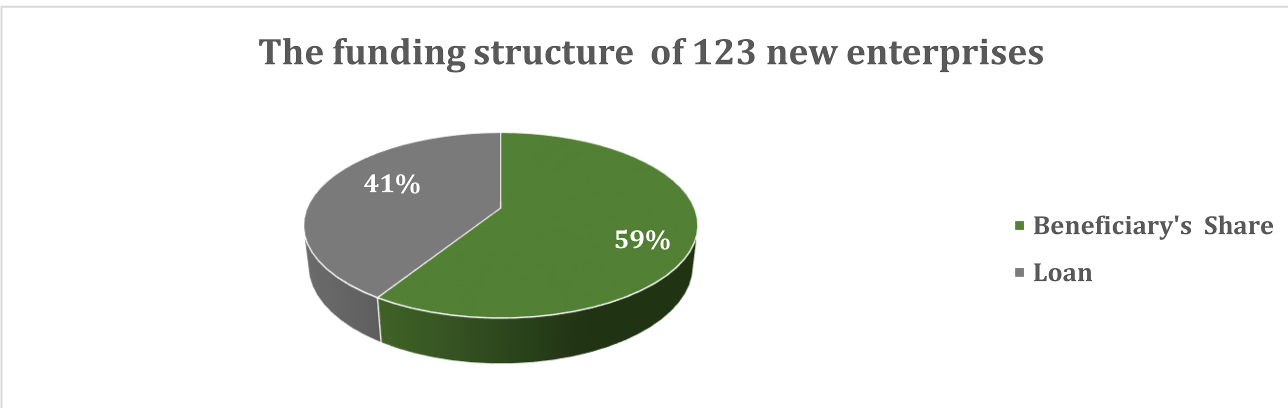
- The main reason is a saturation of agro credit market (the biggest majority of qualified borrowers already took loans in 2013-2014). In other words, the banks provided maximum financing to farmers and agro-producers, whom they considered to be were creditworthy.
- According to the banks, due to the reduction of interest expenditures (which is mostly thanks to the project), some part of farmers and agro-producers were able to mobilize their revenues, and to finance their current assets for the next economic year. This refers to those farmers and agro-producers that do not or cannot expand their activities due to some subjective or objective reasons.
- According to the evaluation by banks, the agro credit market was saturated in all sectors except for cattle breeding sector. This is due to the fact that APMA introduced an obligation to meet food safety standards, which reduced the farmers' demand on loans in the field of cattle breeding.

Despite the reduction in number of disbursed loans in 2015, the total portfolio of agro credits is still growing:

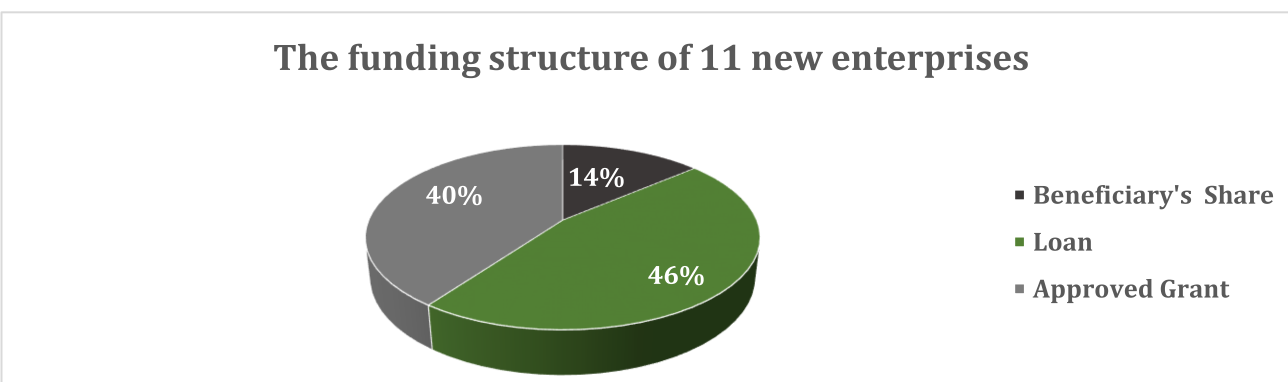


Support to attracting private investments by the project. The commercial banks mostly issue commercial/business loans only if the borrowers can provide co-financing. The share of co-financing in the total funding for the business (which includes the credit amount), is determined by the bank. It would not be correct to calculate the weighted average, because the determination of co-financing share depends on many factors, such as: riskiness of the business, creditworthiness of the borrower, availability of resources to secure the loan, purpose of the loan (establishing startup/expansion of existing enterprise), etc. Obviously, there are exceptions, but in case of agricultural commercial loans, the banks try to minimize their number.

As mentioned above, according to the information provided by the Agricultural Projects Management Agency, 123 new enterprises were established with the loans disbursed within the frameworks of the preferential agro credit project, with the total financing of 65,008,799 USD. Out of total financing, the preferential agro credit is 26,837,584 USD, which is 41% of the total funding, and the borrowers co-financing is 38,171,215 USD, which in its turn is 59% of the total funding[2].



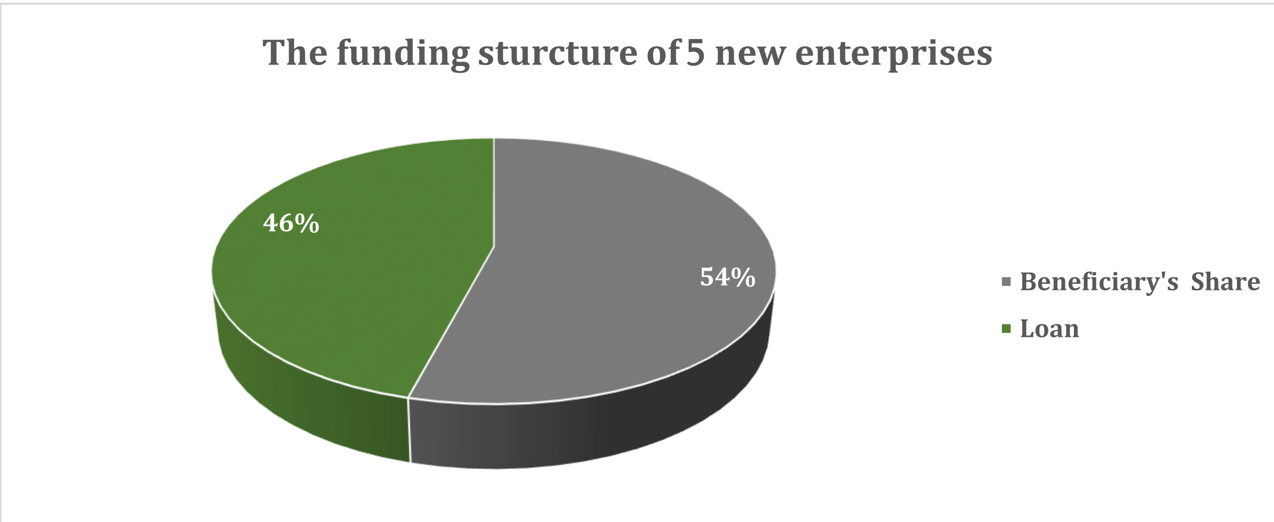
Up to 8 million USD were invested in 11 new enterprises that were established within the frameworks of agricultural products processing enterprise co-financing project (so called grants). The funding consists of state co-financing (so called grant), preferential agro credit and the producer's own co-investment. Their percentage distribution is provided in the chart:



[2]Shares of credit and cofinancing are calculated by using weighted average from the statistical data of the Agency.

Although the financing of startups is regarded as high-risk funding by the banks, we should take into account that it is mostly financially stable producers who are founding new enterprises, whose main activities in some cases are not related to agriculture business. However, even in case of such enterprises, banks are requesting co-investment of 56% and issue a loan for remaining 44%.

Funding structure of 5 new enterprises founded within the frameworks of the state program Produce in Georgia (own capital 54%, loan 46%) is not included in the calculation of this indicator, but it approximates the above-stated ratio (own capital 56%, loan 44%), and reinforces it to some extent.



We assume in the research that banks requested less amount of co-investment from those farmers that did not establish new enterprises, but rather used the agro-loans for reequipping/ expanding their enterprises or for increasing the working capital.

If we assume that banks requested own co-financing from only 50% of borrowers of agricultural credits, and only in the amount of 20%, then we will see that the private sector invested at least 68,605,802 GEL and 13,325,191USD as their equity contribution to reequip/expand agricultural production and finance current assets in 2013-2015.

These calculations do not include financing for the establishment of 134 new enterprises- 39,263,079 USD, but adding this amount would increase this indicator up to at least 68,605,802 GEL and 52,588,270 USD. If we convert these amounts into GEL, using the exchange rate of December 31, 2015 (1 USD = 2.3949 GEL), then we will see that the volume of investments from private sector in agriculture reaches almost 200 million GEL, which is at large extent an outcome of preferential agro credit project.

It is noteworthy that within the framework of the state program Produce in Georgia, the private sector has invested more than 16 million USD in the establishment of 5 new enterprises in 2014-2015, which represents about 37 million GEL and is an additional amount invested in the agriculture development by the private sector.

It is possible to evaluate the positive macro-economic impact of the preferential agro credit project by looking at the survey results and assumptions made by the Agricultural Projects Management Agency, as well as by analyzing logical causal linkages between the statistics of loans disbursed within the framework of the preferential agro credit project and the macroeconomic indicators.

According to the annual report[3] published by the Ministry of Agriculture in 2015, about 3,500 new jobs were created at 139 new enterprises established within the frameworks of the preferential agro credit project and the state program Produce in Georgia, and about 10,000 new jobs – at 665 enterprises expanded and reequipped within the frameworks of the preferential agro credit project.

In 2015, the country produced the agricultural goods with the total value of 3.7 billion GEL, and as a result of processing the agricultural products, agro-food products of 4.5 billion GEL were created. In 2015, the primary agricultural production has increased by 30.6% compared to 2012, and the processing sector has increased by 20.7%.

The agricultural service indicator, as one of the constituents of the total production in the economy, was 193.6 million GEL in 2015, which is 7% compared to the same indicator of 2012.

The added value created in the agro-food sector exceeds 4.3 billion GEL in 2015. The indicator of added value in the agro-food sector increased by 31.4% from 2012 until 2015. The share of agro-food sector in the total national GDP is 15.7% according to the preliminary data of 2015, whereas the same indicator was 14.6% in 2012.

In 2015, during the last decade, the record high rate of foreign direct investments was reported in the agricultural sector. According to the preliminary data, the FDI volume in the agricultural sector was 28.8 million USD, and it exceeds the same period in 2012 by 1.8 times. It is noteworthy that this rate significantly exceeds the data of all the previous years.

It should be noted that the state has initiated whole range of programs and projects since 2012, which were focused on agriculture development in Georgia. The budget of agriculture has increased significantly and its share reached 3% of the total budget.

[3] http://moa.gov.ge/Ge/Public/Annual/6

Because of all the programs and projects, also due to the whole series of legislative amendments affecting the sector in the short, medium and long run, it is very difficult to single out the direct impact of only the preferential agro credit on the sector and to say how important role this program has played in the growth achieved in the agricultural sector. However, it is clear that there is a direct link between the industries actively financed by this program and the growth achieved therein.

We can see an interesting correlation between the funding of industries and results achieved by them. For example, according to the preliminary data of 2015, wheat harvest totaled 94.7 thousand tons, which represents a growth of 17% compared to 2012. Production of grapes has also received extensive financing, and probably it is due to this fact that the grapes production increased by 17% compared to 2012 and totaled 262.4 thousand tons in 2015.

The population of poultry and livestock increased too in 2015, as well as the production of animal origin products compared to the same indicators before the project initiation. According to the preliminary data of 2015:

- The population of cattle reached 1.3 million, which exceeds the data of 2012 by 16.8%;
- The population of goats and sheep totaled 950.5 thousand, which exceeds the data of 2012 by 28.0%;
- The population of poultry totaled 8.7 million, which exceeds the data of 2012 by 41.9%;
- Milk production totaled 663.6 million liters, which exceeds the data of 2012 by 12.6%;
- Egg production totaled 565.9 million units, which exceeds the data of 2012 by 19.4%;

In 2015, according to the data declared by enterprises, the value of all the produced agri-food was 2.6 billion GEL, which is 32% more than it was in 2012.

Since the beginning of a preferential agro credit project, until December 31, 2015, inclusive, the statistics of foreign trade have improved as well. Despite the complicated economic and political conditions in the trade partner countries, such as Russia and Ukraine, and the currency crisis in Azerbaijan, Armenia, Kazakhstan and Belarus, the export of agro food products from Georgia increased by 19% in 2015 compared to 2012.

According to the data of 2015, the value of agro food products exported from Georgia totaled 612.1 million USD. During this period, the share of agro food products in the total gross export from the country was 28%. The main export products were: hazelnut (29%), wine (16%), mineral and still waters (13%), spirits (11%), cattle (3%), non-alcoholic soft drinks (3%), live sheep (2%).

The value of agro food exported to the European Union in 2015 totals 208 million USD, which is almost twice as much as the same indicator in 2012. Obviously, this growth is largely attributed to the DCFTA agreement, but expansion/re-equipment of 665 agricultural enterprises and opening of 139 new enterprises also made significant contribution in this respect as well.

Although the negative trade balance increased by 3% in 2015 compared to 2014 according to the foreign trade data on agro food products, it is still reduced by 35% compared to 2012.

It should be mentioned once again that there is no such statistical data in the country that would establish clear linkages between the financing of industries and improved macroeconomic indicators, but in this document we are providing our vision of causal relations rather than just statistics.

7. Analysis of Microeconomic Impact of the Project

8 newly established enterprises were studied for conducting a microeconomic analysis of preferential agro credit project results. These enterprises were selected based on the following criteria:

- Detailed knowledge of the enterprise's business plan by the Agriculture Projects Management Agency;
- The new enterprises should have operated for at least one season (even partially), which implies acquisition of inputs, production and sale;

Such 8 enterprises were selected out of 11 new enterprises that were jointly financed by the preferential agro credit and the processing enterprise co-financing projects. Out of these enterprises, 4 process hazelnut, 3 – fruit and 1 – dairy products.

Sector	Invested in USD	The volume of loans (max.50%) in USD	Government Funding (max.40%) in USD	The share of the beneficiary (min 10%) in USD
Hazelnut processing	782,332	391,166	312,933	78,233
Hazelnut processing	735,418	367,709	294,167	73,542
Hazelnut processing	557,500	278,706	222,906	55,888
Hazelnut processing	430,000	215,000	172,000	43,000
Fruit processing	1,000,000	500,000	400,000	100,000
Fruit processing	1,000,000	500,000	400,000	100,000
Fruit processing	971,961	485,981	388,784	97,196
Milk processing	446,780	223,390	178,712	44,678
Total	**5,923,991**	**2,961,952**	**2,369,502**	**592,537**

All 4 hazelnut processing enterprises are located in various municipalities of Samegrelo, 2 fruit-processing enterprises are located in Guria and one in Adjara, and the dairy processing enterprise was established in Kvemo Kartli.

There were 393 people employed in these enterprises, 321 of them – permanently. Salaries paid to all of them totaled 456,433 in 2015, out of which 79,563 GEL was transferred to the state budget as income tax, and 11,724 GEL was deducted from VAT assets.

These enterprises purchased the inputs with the value of about 25 million GEL in 2015, which eventually represents the revenue for the rural population.

Out of the categories of purchased inputs, we should highlight the importance of purchasing and processing of different varieties of fruit. Before the establishment of new processing enterprises there was no post-harvest handling infrastructure, which created serious problems for the farmers. As the result of processing fruit, 2,378 tons of output were produced, out of which 2,058 tons were sold as of December 31, 2015, and the remaining 320 tons were warehoused for this period.

Product	The volume of the production (in tons)	The price without VAT (in GEL)
Sold products	2,058	25,694,202
Warehoused products	320	2,638,026
Total	**2,378**	**28,332,228**

The cost of the produced output is 25.8 million GEL, and the value of sold goods totals 25.7 million GEL. The market value of the product in the warehouse is estimated to be 2.6 million GEL.

Based on the data available to the Agricultural Projects Management Agency, all the new enterprises will complete the production/sale cycle with profit, even though the season was not completely utilized or started late in some cases.

The state provided up to 2.4 million USD for co-financing 8 new enterprises, which equals about 5.7 million GEL (exchange rate on 31.12.2015). The amount that the state has to pay for financing the interest expenses for the total portfolio of preferential agro credits disbursed to selected 8 enterprises equals 1.24 million USD, which is about 3 million GEL if the same exchange rate is applied. In total, opening of 8 new enterprises will cost 8.7 million GEL for the state budget.

The Agricultural Projects Management Agency has co-financed these enterprises after critically evaluating their business plans and conducting multiple reviews. Financial calculations presented in business plans cover 5-year period. These calculations show the applicable taxes as well, which total 12.3 million GEL for the period of the next 5 years.

Income Tax	Profit Tax	VAT	Property Tax	Total
1,345,669	4,596,039	6,046,444	308,804	12,296,957

If we assume that only 50% of applicable taxes envisaged in the business plans will be paid, then there is a high likelihood that the state budget will get a revenue of up to 6.15 million GEL in the form of all types of taxes in the next 5 years. If we quantify this amount for 7 years, then the amount of paid taxes will total 8.6 million GEL. According to these assumptions, the funds invested by the state in 8 new enterprises will be paid back as taxes in 7 years, maximum.

8. Examples of Preferential Agro Credit Projects Worldwide

As we know, the preferential agro credit project provides co-financing of loan interest expenses to the farmers and agribusinesses, as well as secondary collateral of the 50% of principal amount of the loan. At the same time, with the purpose of supporting the establishment of new enterprises, other state projects offer co-financing and infrastructural support (so called grants) to the farmers/agribusinesses, which implies handover of land and real estate at a symbolic price. There are also projects for supporting the cooperation between the farmers and agribusinesses. With the purpose of comparing the preferential agro credit project to similar programs in other countries, experience of other countries was studied in this regard, such as: Ireland, the US, France, Poland and Bulgaria.

After studying the examples of agriculture financing models of these countries, it is possible to say that Georgian model is clearly similar to those used globally.

USA. Support for agriculture financing in the US started in 1916 and was implemented in two directions. The first one was through The Farm Credit System (FCS), which united credit unions, and the other one – The Farm Service Agency (FSA) managed by the state. Today, the FSA issues subsidized loans to the farmers who have little access to bank loans and/or do not have sufficient collateral. One of the key peculiarities of the FSA is that alongside with intensive monitoring, it supports capacity building of farmers.

France. In France, preferential agro loans were disbursed only by the cooperative bank Crédit Agricole until 1990. During the modernization phase of the French agriculture, the main instrument for assistance was to subsidize interest expenses for agro loans. There were two keys to success: long-term credit programmes and technical assistance to farmers, their training and continueous assessment of their needs.

Poland. The current Polish rural banking system can be divided into four groups (World Bank 2000). The cooperative group includes the Bank for Food Economy (BGZ), several regional cooperative banks, and the local cooperative banks. The cooperative group is the most important part of the banking system for rural people. BGZ has several programs that target agriculture. The second major institution in rural Polish lending is ARMA (Agency for Restructuring and Modernization of Agriculture) – a government agency that offers loan subsidies for rural lending undertaken by commercial banks. The commercial banks advance credits at their own risk while ARMA provides the interest subsidy. A third important institution is the Polish State Savings Bank (PKO BP). PKO BP is charged with lending for household purposes. Finally, there are commercial banks and private non-bank entities that provide credit to their suppliers or consumers. Commercial banks appear to be increasingly involved in making loans to large agricultural enterprises and rural agri-businesses.

Other credit sources are large firms, both input suppliers and downstream companies (including supermarkets) that provide credit as part of a larger business relationship.

Bulgaria. The Agriculture Sector Adjustment Loan Project (ASAL) supports rapid development of a more efficient and responsive agricultural sector, in accord with the principles enunciated in the Government of Bulgaria's medium-term program. Reforms will occur in the areas of pricing, trace, agricultural subsidies and finance, land markets, cereals markets, and agriculture enterprise privatization. The reforms will increase domestic marketing competitiveness by expediting development of a private land market, significantly reducing the state's role as a marketing and processing intermediary, improving the incentives environment by eliminating price and trade controls, and reducing subsidized government credit. This will improve income-earning opportunities for rural people, contribute to rural employment generation, and help raise rural living standards. Consumers will benefit from improved agricultural product quality and availability, greater choice, and more efficient marketing demands. The most important risks are first, political resistance by powerful interest groups, and second, that the program will be undermined by a non-supportive macroeconomic environment. All conditions have been fulfilled and the ASAL is a one tranche operation.

Ireland. Ireland's experience in agriculture financing is especially interesting, because unlike many European countries, Ireland did not have a state development bank to sustain funding to businesses throughout the financial crisis.

During Ireland's exit from the EU/IMF programme in late 2013, the Taoiseach and Chancellor Merkel agreed that the German promotional bank Kreditanstalt für Wiederaufbau (KfW) would help finance the Irish SME sector. It was this European agreement that led to the creation of the Strategic Banking Corporation of Ireland (SBCI), ensuring that in future, Irish businesses have access to long-term, patient funding.

The Department of Finance and the National Treasury Management Agency worked throughout 2014 to create the necessary mechanisms to establish the SBCI. Building on the initial funding offer from the KfW, the project team added funding from the European Investment Bank (EIB) and the Ireland Strategic Investment Fund, a new fund to which the assets of the National Pensions Reserve Fund were transferred. The Government approved this approach and legislation enabling the establishment of the SBCI was passed by the Oireachtas in July 2014.

One of the directions of the SBCI is to provide Agriculture Investment Loans. Below you will find the detailed description of these loans.

Agriculture Investment Loans

The following product features are available through partnered On-Lenders with SBCI's support, subject to the financial institutions' own credit policies and procedures.

Product Features

- Available for investment by agricultural SMEs involved in primary agricultural production, the processing of agricultural products or the marketing of agricultural products.
- Lower interest rates
- Loan amounts up to €5m
- Minimum loan maturity of 2 years

In addition, subject to the financial institutions' credit policies and procedures, the following features may also be available to qualifying SMEs:

- Repayment schedule flexibility
- Loan maturity of up to 10 years
- Facility maturity tailored to correspond with investment life cycle

Example – Agriculture Investment Loan

A dairy farmer in Tipperary needs to invest in new milking machinery to increase the productivity of the farm. A new robotic milking machine will cost €130,000 including installation. It has an estimated lifespan of 15 to 20 years.

Existing Products

In this scenario without the SBCI, the SME's bank may approve a term loan of €130,000 at their standard agricultural term loan rate of, say, 6.95% interest.

SBCI Loan

The SBCI agricultural investment loan, provided through its on-lender, is approved at, say, 5.00% over a 7-year repayment term. The reduced cost of the SBCI loan is illustrated below:

	Existing Products	SBCI Product
Facility Amount	€130,000	€130,000
Interest Rate	6.95%	5%[4]
Loan Term	7 years	7 years
Monthly Repayment	€1,959	€1,837
Total Cost of Credit	€34,545	€24,342

[4] Estimated SBCI nominal rate. SBCI rates may vary by On-Lender and according to loan size and other factors. Repayments calculated on basis of constant payments and constant interest rate.

Summary of Eligibility & State Aid

- Available to qualifying SMEs
- Borrower must submit a written loan application before work on the project or activity commences along with a list of costs.
- Loan amount must not exceed 1.5 times the amount of eligible costs (as defined in Commission Regulation (EU) No 702/2014 of 25 June 2014), as follows:

a. the construction, acquisition, including leasing, or improvement of immovable property;

b. the purchase or lease purchase of machinery and equipment up to the market value of the asset;

c. general costs linked to expenditure referred to in points (a) and (b), such as architect, engineer and consultation fees, fees relating to advice on environmental and economic sustainability, including feasibility studies; feasibility studies shall remain eligible expenditure even where, based on their results, no expenditure under in points (a) and (b) is incurred; and

d. acquisition or development of computer software and acquisitions of patents, licenses, copyrights, trademarks.

9. Conclusions and Recommendations

At the initial stage of preferential agro credit project, it was impossible to determine the project success indicators due to several reasons. These are:

- Absence of limitations for industry financing by the state (except for some insignificant cases), which enabled the banks to issue loans in any industry they select;
- Absence of limitations regarding the purpose of disbursed loans, which made it possible to issue loans for purchasing fixed, as well as current assets;
- No involvement of the state in loan disbursement process. This way, the banks had a full right to issue loans per their discretion to any desired customer, e.g. individuals or legal entities, taxpayers or non-taxpayers.

Therefore, at the initial stage of the project, the only indicator of success was the growth of total portfolio of agro credits in the country, which was surely achieved.

Although there were no other indicators at the beginning of the project, as of 31/12/2015, situation both at the industry and enterprise levels has improved significantly:

- As a result of the project, the primary production, as well as post-harvest handling infrastructure have improved;
- The volume of foreign direct investments in agriculture has increased;
- Growth of local investments in agriculture was promoted;
- Total output of agribusiness production has increased;
- New jobs were created;
- Revenues from exporting the agro food products have increased;
- Import of agro food products has decreased;
- The negative export-import balance for agro food products has decreased;
- Population of livestock, poultry and beehives has increased;
- And most importantly, the allocated budgetary funding will be returned as taxes during next 7 years, maximum.

After reviewing and analyzing the preferential agro credit project, we have developed some recommendations for project implementers. We think that taking them into account will make the project more diverse, consumer-oriented and effective. It will also facilitate the project analysis and impact assessment process.

Lift restrictions regarding the loan term. For example, allow disbursement of loans with term of more than 7 years, which does not mean extending the term of co-financing of interest expenses by the state. Although such action can increase the interest co-financing expenditures for the state, there is a mechanism to regulate this – reduction of annual interest rate of co-financing. This action will enable the farmers/agribusinesses to get longer-term bank loans for creating fixed assets that cannot be repaid within 7 years, but that are necessary for developing successful business. For example: planting perennial plants. In this case, the principal amount is not repaid within 7 years, but as the fruiting starts, the yield increases every year, and the producer will be able to repay the principal amount of the loan, as well as interest.

Finance enterprises with preferential agro credits using more refined models, e.g. as it is elaborated now for fixed assets in animal husbandry. There was an amendment made to the provision of the preferential agro credit project in the summer of 2015 on issuing loans for fixed assets in animal husbandry sector. The amendment allowed purchase of only the productive cattle breeds specified by APMA, and construction of only those buildings that meet the food safety standards. These amendment provided much more specific and refined guidance for financing the fixed assets in the area of animal husbandry.

Issuing loans by using more refined models will facilitate:

- Spreading of highly productive cattle breeds and high-yield species in Georgia;
- Introduction/development of high-tech and intensive production;
- Production of safe agricultural products and processed output throughout the country;
- Production of primary and processed agricultural products for the export;
- Development of the production of primary consumption products, also basic and non-substitute goods that are of strategic significance in regards to food security (wheat, oil, milk, etc.);
- Creation of enterprises for replacing imported agro food, etc.

Improve the process of collecting and classifying data at macroeconomic level, as well as on enterprise, regional, industry and activity levels. With the purpose of obtaining realistic macroeconomic data, first of all, the data of the National Bank, National Statistics Office and the Agriculture Projects Management Agency should become consistent. To achieve this, the National Bank should review and adjust the loan registration classifier that is used by the commercial banks for reporting purposes.

Verify the statistics of geographic distribution of production. To achieve this, the real locations of enterprise activities should be determined, thus, their legal and actual addresses should be verified too. If the enterprise operates in one region, but has a legal address registered in other region (e.g. the cattle-breeding farm is located in Kakheti, but the producer's legal address is registered in Tbilisi), it would be better to indicate the address where production activities actually take place. In case the enterprise is operating in several regions (e.g. purchases grapes in several regions), the information should be obtained (through interviews or by filling out a special form) about the distribution of loan amount among those regions. Such allocation should not result in distorting statistical data in other directions (e.g. when counting the number of disbursed loans). This recommendation also implies that all this should be done without extensive administrative expenses.

Track activities along with industries. With the purpose of creating a comprehensive picture, the data on industry financing should be broken down to what activity or activities the disbursed preferential agro credit was used for. For example, let's consider the loan disbursed for financing fixed assets in animal husbandry. This loan might be used for building the farm and/or performing major repairs at the farm building, and/or purchasing livestock and/or equipment, etc. Such loan is classified as "loan disbursed for financing fixed assets in animal husbandry", without any farther specifications. For the sake of statistics, it would be better to ensure one-time tracking (in the software) of specific activities financed with the loan, as well as expenses incurred for performing each of them. Currently APMA collects such information based on phone interviews with the selected beneficiaries, but only for specific categories of loans.

Raise additional non-budget funding with the purpose of expanding the preferential agro credit project. In order to support the project extension, development and improvement, and not to depend fully on the funding from the state budget, it is better to share the example of Ireland and raise financial resources from international and donor organizations in the form of grants and long-term low-interest loans. A new model should be elaborated, which would support banks in attracting low-interest funds that they would later distribute as preferential loans.